

**CANADIAN
INDUSTRIAL
GAS & OIL LTD.**

ANNUAL REPORT

1971

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CANADIAN INDUSTRIAL GAS & OIL LTD.

Directors

Edward G. Battle	Calgary, Alberta
*Edmund C. Bovey	Toronto, Ontario
Donald R. Brandt	Edmonton, Alberta
C. Spencer Clark	Seattle, Washington
Robert B. Craddock	Tuckers' Town, Bermuda
J. Ian Crookston	Toronto, Ontario
*Edward A. Galvin	Calgary, Alberta
*Richey B. Love, Q.C.	Calgary, Alberta
William I. M. Turner, Jr.	Montreal, Quebec
John R. Yarnell	Montreal, Quebec

*Member of the Executive Committee

Officers

Edward A. Galvin	President
Edmund C. Bovey	Chairman of the Executive Committee
Edward G. Battle	Executive Vice President
Donald D. Barkwell	Vice President, Production
Stewart R. Dyckman	Vice President, Finance
George T. Hefter	Vice President, LP Gas
Wilfrid A. Loucks	Vice President, Exploration
Laurence A. Sills	Secretary
A. Kenneth Davies	Treasurer
Russell G. Rennie	Assistant Secretary

Head Office

640 Eighth Avenue S.W.,
Calgary, Alberta T2P 1G9

London Office

16A, St. James' Street, London, SW1A. 1ER,
England

Auditors

RIDDELL, STEAD & CO. Calgary, Alberta

Registrars and Transfer Agents

Common and Preferred Shares:

NATIONAL TRUST COMPANY, LIMITED

Calgary, Montreal, Toronto, Vancouver, Winnipeg

THE BANK OF NEW YORK

New York

Exchange Listing

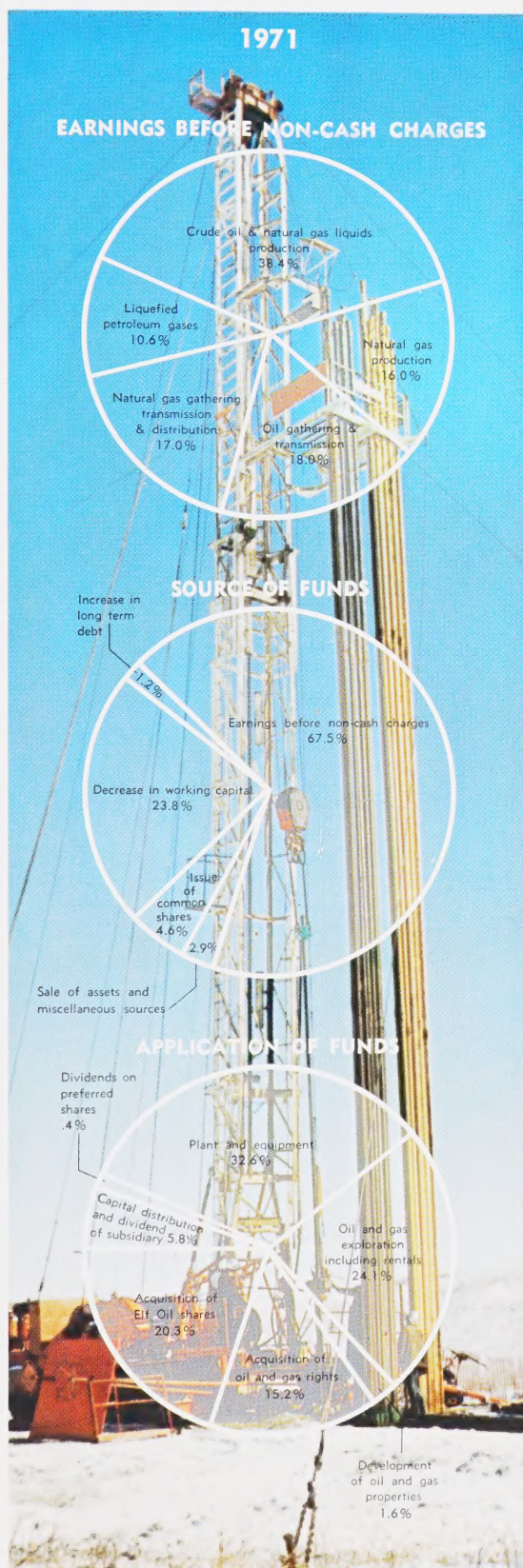
Common and Preferred Shares:

TORONTO STOCK EXCHANGE Toronto, Ontario



Comparative Summary
YEAR ENDED DECEMBER 31

	1971	1970	1969	1968	1967	1966	1965
Revenue	\$42,086,000	\$33,901,000	\$34,174,000	\$29,616,000	\$26,266,000	\$23,727,000	\$21,532,000
Earnings — before non-cash charges	\$17,479,000	\$15,325,000	\$14,512,000	\$14,379,000	\$11,961,000	\$10,267,000	\$10,084,000
Net earnings	\$ 9,889,000	\$ 8,912,000	\$ 8,188,000	\$ 8,196,000	\$ 6,359,000	\$ 6,416,000	\$ 6,188,000
Earnings per Common share —before non-cash charges	81¢	71¢	71¢	71¢	60¢	52¢	51¢
Net earnings per Common share	47¢	42¢	41¢	41¢	32¢	32¢	31¢
Net Production							
Crude Oil and Natural Gas Liquids							
Barrels per day . . .	10,162	9,306	8,681	8,609	7,954	7,356	6,958
Natural Gas							
MMCF per day . . .	93.4	95.2	88.3	81.8	73.6	71.0	63.6
Sulphur							
Long Tons	13,690	13,400	10,810	10,390	6,780	4,620	4,879
Gas Gathering & Transmission (Sales)							
MMCF per day . . .	125.8	120.8	120.3	108.6	102.0	94.9	83.3
Oil Gathering & Transmission (Deliveries)							
Barrels per day . . .	117,600	122,300	123,800	122,100	118,700	112,800	102,200
Liquefied Gas Sales (Imp. Gallons)							
Cigas Products Ltd. . . .	48,400,000	47,400,000	44,300,000	39,300,000	37,600,000	35,610,000	25,300,000
Western Propane Inc. . . .	28,100,000	20,000,000	15,500,000	14,200,000	10,700,000	8,000,000	5,400,000
Reserves							
Crude Oil and Gas Liquids (Barrels) . . .	69,733,000	63,775,000	49,746,000	46,312,000	43,826,000	41,914,000	33,350,000
Natural Gas (MMCF) . . .	603,700	619,600	597,000	595,800	590,000	524,800	554,200
Sulphur (Long Tons) . . .	241,000	255,000	246,900	257,700	—	—	—
Acreage Gross	23,408,839	16,335,847	18,152,342	10,994,464	8,411,515	8,827,548	7,126,752
Net	14,223,230	11,100,522	12,727,674	5,846,223	2,802,253	3,074,010	1,702,441
Miles of Pipeline System . . .	1,317	1,248	1,109	1,091	1,010	949	895
Propane Distribution Plants . . .	54	44	37	36	37	37	33



TO THE SHAREHOLDERS:

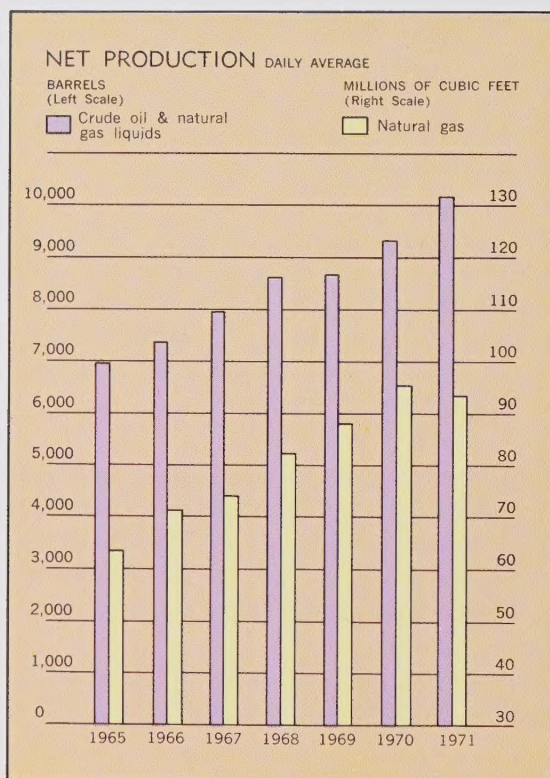
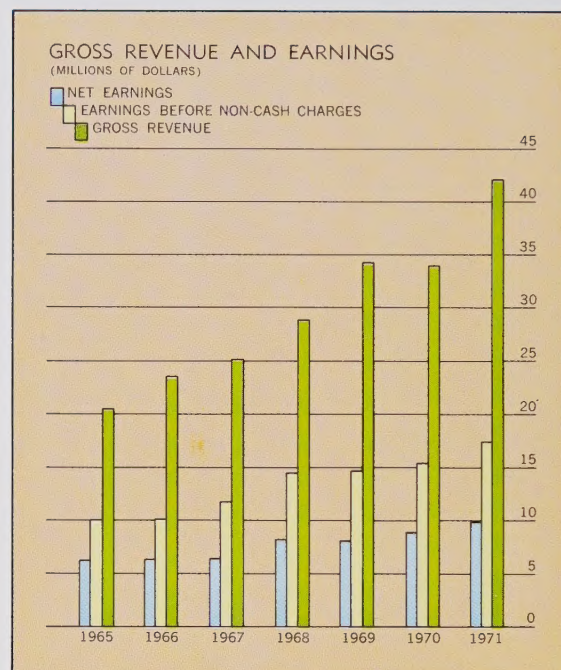
The year 1971 was marked by a number of events evidencing continued growth and expansion. Directly or through its subsidiaries the Company —

- in the Sedimentary Basin of western Canada participated in several oil and gas discoveries;
- in the Arctic had an interest in a second prolific gas well completed on King Christian Island;
- in the Scottish waters of the North Sea was a member of a consortium which drilled a gas condensate discovery on a large structure;
- expanded its interests in Europe and Northern Africa by acquiring acreage in Tunisia, offshore Malta, and offshore Sicily, and opened a London office to administer its increasing activity in these areas;
- exchanged shares to acquire 100% of the shares of Frisco Petroleum Ltd. and Laurence Oil Co. Ltd., each with producing properties in the Province of Alberta. These contributed substantially to oil reserves;
- through exchange of shares acquired the remaining 50% interest in Western Propane, Inc., which distributes liquefied petroleum gas in the States of Washington and Oregon.

These matters are referred to in more detail on the following pages.

FINANCIAL

The exchanges involving shares of Laurence Oil Co. Ltd. and Frisco Petroleum Ltd. have been treated for accounting purposes as a pooling of interests, and accordingly, their accounts are included not only in the 1971 figures but also in the re-stated comparative figures presented for 1970. In the case of Western Propane, Inc., the Company had previously owned 50% of its shares, but its accounts were not included in the consolidated financial statements. On this basis, net earnings per common share were 47¢ in 1971 compared to 42¢ in 1970, and cash earnings were 81¢ compared to 71¢. Consolidated sales in 1971 were \$42,000,000 compared to \$34,000,000 in 1970, but of this apparent increase, over \$4,000,000 resulted from the inclusion of the sales of Western Propane, Inc.

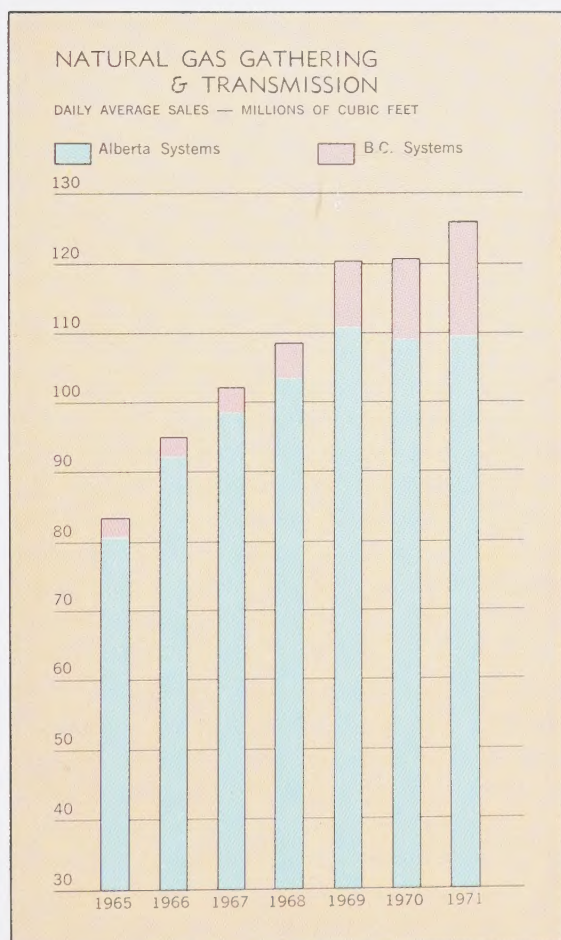
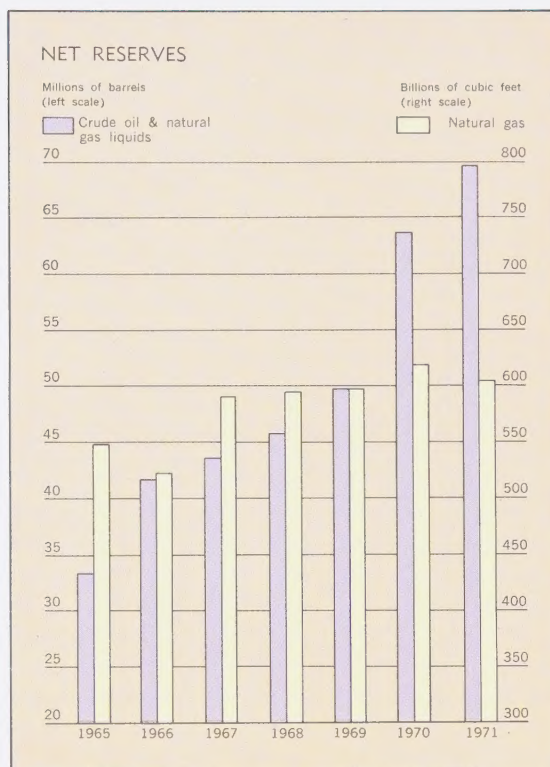


PRODUCTION

Crude oil and natural gas liquids production for the year increased 9% over 1970. Production for 1971, after deduction of all royalties, averaged 10,162 barrels per day compared to 9,306 in 1970. Crude oil production averaged 9,146 barrels per day, condensate averaged 483 barrels per day, and propane and butane averaged 533 barrels per day. Natural gas production after deduction of all royalties, averaged 93.4 MMCF per day as compared to 95.2 in 1970. Sulphur production from gas processing plants for the year was 13,690 long tons.

RESERVES

The Company's net crude oil and natural gas liquids reserves and natural gas reserves at year-end were 69,733,000 barrels and 603,700 MMCF respectively, as compared to 1970 year-end reserves of 63,775,000 barrels and 619,600 MMCF (including the reserves of Laurence and Frisco for each date). Before re-statement of Laurence and Frisco's reserves for 1970 the Company's crude oil and natural gas liquids reserves increased 35%, while after re-statement the increase was 9%.



NATURAL GAS GATHERING & TRANSMISSION

Total sales of natural gas to industrial and domestic consumers served by the Company's gathering and transmission systems averaged 125.8 MMCF per day as compared to 120.8 in 1970. Sales to customers through the Edmonton, Alberta, area system showed a slight increase while deliveries to customers in the British Columbia system increased 37%.

Crude Oil & Natural Gas Liquids Production

Barrels Per Day (Net)

	1971	1970
Alberta		
Pembina	1,032	1,054
Countess-Lathom	637	548
Joarcam	595	583
Swan Hills	425	367
Simonette	350	222
Redwater	263	253
Joffre	184	166
Leduc	157	155
Swalwell	141	49
Inverness	132	141
West Drumheller	127	122
Other Fields	1,026	943
Royalty Interests	86	81
Condensate	483	505
Propane and Butane	533	489
	<u>6,171</u>	<u>5,678</u>
Saskatchewan		
Weyburn	529	560
West Kingsford	191	187
Hazlet	166	150
Queensdale	109	105
Other Fields	285	290
Royalty Interests	866	867
	<u>2,146</u>	<u>2,159</u>
British Columbia		
Peejay	1,313	1,312
Other Fields	465	75
Royalty Interests	48	62
	<u>1,826</u>	<u>1,449</u>
Other Areas	19	20
TOTAL	<u>10,162</u>	<u>9,306</u>

Natural Gas Production

Millions of Cubic Feet Per Day (Net)

	1971	1970
Alberta		
Westlock	14.1	12.9
Fort Saskatchewan	10.1	11.9
Bindloss	7.2	7.8
Ghost Pine	7.0	7.4
Bittern Lake	6.5	7.0
Nevis	5.5	6.1
Craigend	3.3	3.4
Crossfield	3.8	3.3
St. Albert	2.9	3.0
Alexander	2.6	2.9
Pouce Coupe	2.5	2.6
Other Fields	13.9	13.3
Royalty Interests	2.6	2.0
	<u>82.0</u>	<u>83.6</u>
British Columbia		
Jedney, Bubbles, East Laprise	9.1	9.7
Other Fields	1.0	0.7
	<u>10.1</u>	<u>10.4</u>
Other Areas	1.3	1.2
TOTAL	<u>93.4</u>	<u>95.2</u>

OIL GATHERING & TRANSMISSION

Crude oil and product deliveries averaged 117,600 barrels per day compared to 122,300 in 1970. Deliveries by provinces were as follow:

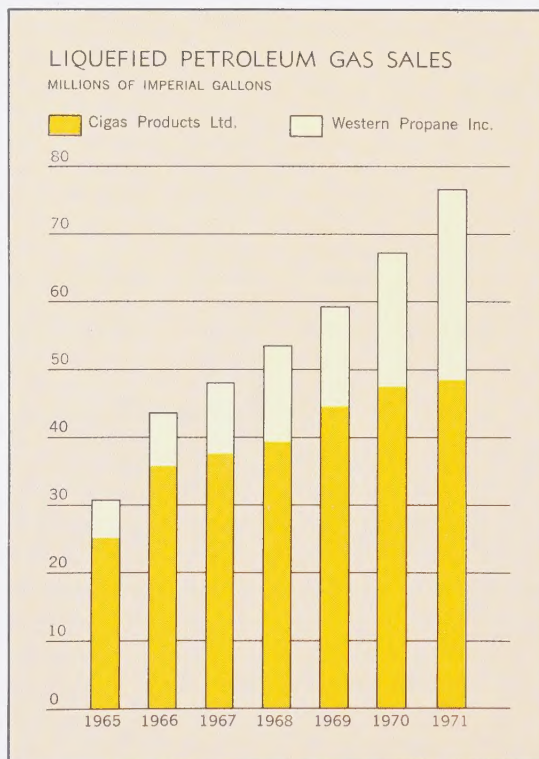
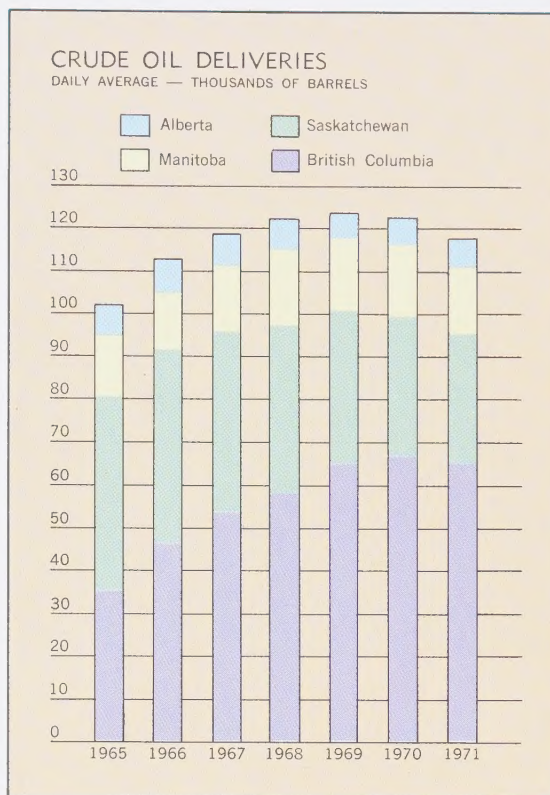
	Barrels per day
British Columbia	64,700
Alberta	6,400
Saskatchewan	30,900
Manitoba	15,600
	<u>117,600</u>

LIQUEFIED GAS

Gallonage sales including those of Western Propane, Inc., increased from 67,400,000 Imperial gallons in 1970 to 76,500,000 in 1971. The major portion of the increase resulted from Western's sales to industry for standby fuel. The cost of Western's product was high in relation to its selling prices. This resulted from a combination of increased rail freight costs on propane, most of which was purchased by Western from various Alberta natural gas processing plants, and to the implementation of the U.S. Government price freeze.

Canadian dollar sales were up slightly from 1970, and unit volume increased about 1,000,000 gallons. Expansion in retail sales has lagged due to the present economic situation facing western Canadian farmers, although some upturn was evident in new installations during the last quarter. Overall propane supplies have been ample and no supply problems are expected during 1972.

A lease with an option to purchase, was negotiated on a 1,000,000 gallon propane storage facility, with rail spur connection, located in Vancouver, B.C. This storage makes practicable the supply of propane for standby service to industrial customers and provides additional flexibility in supply arrangements for retail propane users. The storage was filled and available for use in October, 1971.



Drilling Summary Year ended December 31, 1971

	Oil		Gas		Abandoned		1971 Total		1970 Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
ALBERTA										
Exploratory	2	.57	5	2.71	27	9.78	34	13.06	26	10.71
Development	11	5.49	3	.53	7	3.26	21	9.28	19	3.57
BRITISH COLUMBIA										
Exploratory	—	—	—	—	7	1.80	7	1.80	17	3.69
Development	5	2.08	4	.16	2	1.23	11	3.47	10	1.81
SASKATCHEWAN										
Exploratory	1	.80	—	—	3	1.97	4	2.77	9	2.10
Development	1	.14	—	—	1	1.00	2	1.14	2	.30
NORTH SEA										
Exploratory	—	—	1	.15	—	—	1	.15	1	.10
ARCTIC										
Exploratory	—	—	2	.06	—	—	2	.06	2	.05
TOTALS	20	9.08	15	3.61	47	19.04	82	31.73	86	22.33

Acres Holdings As at December 31, 1971

Area	Leases		Reservations, Permits & Licences		Total		Net Carried Interest Acreage		Mineral Acres		Gross Royalty
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Acres
CANADIAN ARCTIC	—	—	4,661,163	1,503,405	4,661,163	1,503,405	—	—	—	—	—
AMUNDSEN GULF	—	—	1,001,435	1,001,435	1,001,435	1,001,435	—	—	—	—	—
BANKS ISLAND	—	—	1,307,400	1,307,400	1,307,400	1,307,400	—	—	—	—	—
NORTHWEST TERRITORIES	—	—	520,606	98,281	520,606	98,281	—	—	—	—	18,021
BEAUFORT SEA	—	—	327,145	327,145	327,145	327,145	—	—	—	—	—
LABRADOR - OFFSHORE	—	—	3,043,878	3,043,878	3,043,878	3,043,878	—	—	—	—	—
EAST COAST (Flemish Pass)	—	—	2,184,669	2,184,669	2,184,669	2,184,669	—	—	—	—	—
YUKON	—	—	381,646	306,285	381,646	306,285	—	—	6,289	1,611	—
HUDSON BAY	—	—	610,112	610,112	610,112	610,112	—	—	—	—	—
QUEBEC	—	—	38,000	38,000	38,000	38,000	—	—	—	—	—
ONTARIO	4,239	4,239	1,884	1,884	6,123	6,123	—	—	—	—	—
MANITOBA	78,538	24,638	—	—	78,538	24,638	58	10	—	—	—
SASKATCHEWAN	263,176	138,186	384,026	278,209	647,202	416,395	81	13	—	—	648,196
ALBERTA	2,249,923	852,596	974,502	647,564	3,224,425	1,500,160	299,795	9,363	16,720	13,494	326,127
BRITISH COLUMBIA	631,119	131,487	477,546	269,150	1,108,665	400,637	296,809	15,031	3,328	3,328	44,781
NORTH SEA	—	—	133,063	15,591	133,063	15,591	—	—	—	—	—
WALES	—	—	—	—	—	—	—	—	2,110	2,110	—
ADRIATIC SEA	—	—	149,911	110,728	149,911	110,728	—	—	—	—	—
MALTA	—	—	426,322	90,593	426,322	90,593	—	—	—	—	—
TUNISIA	—	—	3,527,599	1,234,661	3,527,599	1,234,661	—	—	—	—	—
ITALY	—	—	30,937	3,094	30,937	3,094	—	—	—	—	—
	3,226,995	1,151,146	20,181,844	13,072,084	23,408,839	14,223,230	596,743	24,417	28,447	20,543	1,037,125

Applications for leases in Alaska covering 1,177,672 gross acres (519,382 net acres) are awaiting acceptance, and are not included in the above table.

Above figures do not include Elf Oil lands, listed as follows, in which the Company has a 10% interest:

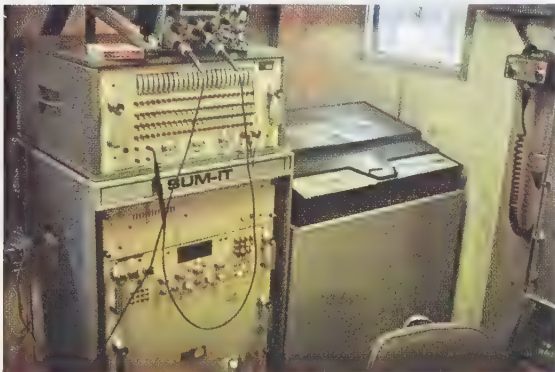
ARCTIC ISLANDS	16,640,524	BEAUFORT SEA	1,514,353
OFFSHORE EAST COAST	2,859,619	ALBERTA	246,375
MACKENZIE DELTA	4,172,287	HUDSON BAY	26,544,441
BRITISH COLUMBIA	630,287	TOTAL ELF ACREAGE — Gross 52,607,886; Net 19,852,546.	

EXPLORATION

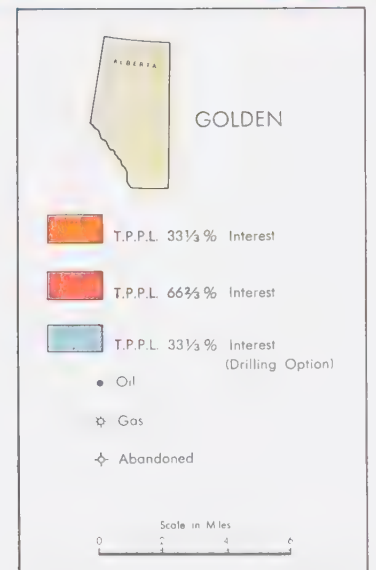
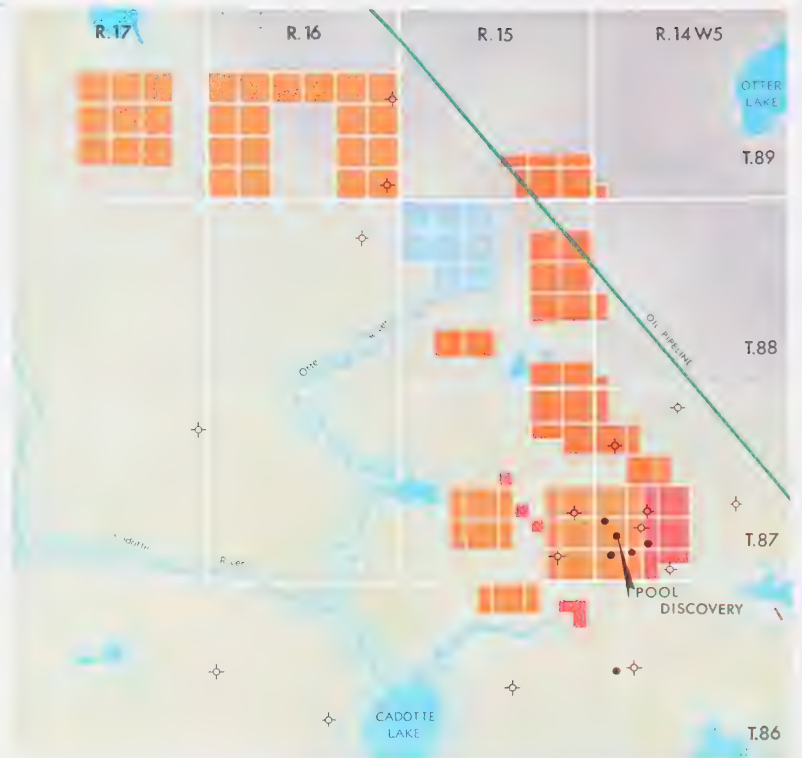
The Company, on its own account and through subsidiaries, carried out an active and successful exploration and development program during the year, participating in the drilling of 82 wells which resulted in the completion of 15 gas and 20 oil wells, including 5 gas and 4 oil discoveries. Land holdings increased to over 23 million gross acres (14 million net acres), the major changes being the addition of concessions in Tunisia and Malta, and acquisition of permits off the East Coast of Canada and in the Amundsen Gulf in the Arctic Islands. A number of smaller but significant additions to the land inventory were made in the Western Canada Sedimentary Basin.



A vibroseis unit used in geophysical search for oil and gas. It uses computer programmed input frequencies to obtain a seismic record of the sub-surface.



Inside the instrument truck, showing some of the specialized equipment used in vibroseis recording.



Western Canada

Trans-Prairie Pipelines, Ltd. (a 97% subsidiary) early in the year made a Devonian oil discovery in the Golden-Lubicon area of north central Alberta. A total of eight wells has now been drilled resulting in five completed oil wells. Trans-Prairie owns a 33 1/3 % interest in four of the wells, and a 66 2/3 % interest in the fifth. Oil discoveries were also made in the Beatton River area of northeastern British Columbia (see map on next page), and the Meekwap area of central Alberta, both of which areas are currently under development. Work is in progress to evaluate three gas discoveries made in the Manyberries, Barrhead and West Prairie River areas of Alberta.



Arctic Islands — Map page 12

Through its 74% subsidiary, Prairie Oil Royalties Company, Ltd., and its interest in Panarctic Oils Ltd. and Elf Oil Exploration and Production Canada Ltd., the Company participated in a total of 19 wells drilled in the Arctic Islands, the most significant development being the discovery of gas on King Christian Island where two wells were completed as prolific gas producers in the Heiberg sand. The wells were drilled by Panarctic on lands in which Prairie owns an interest. Panarctic reported gas flow rates on production tests up to 186 million cubic feet per day. The Company's net interest in this discovery is 3.7%. Panarctic announced a new gas discovery late in the year at Kristoffer Bay on Ellef Ringnes Island, although no details of the discovery have as yet been revealed. A well is currently drilling on Devon Island on lands in which Prairie owns an interest. When completed this well will fulfill Panarctic's obligations under the farmout arrangement and will earn Panarctic a 77.5% interest in all of the 1.5 million acres of farmout lands.

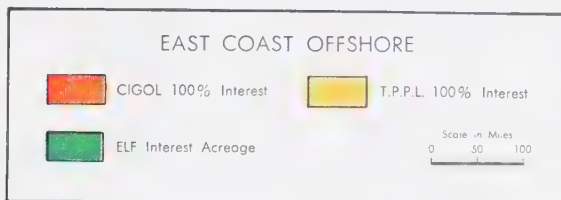
Through its share ownership in Elf the Company had an interest in the drilling of a well on Prince Patrick Island and one on Banks Island, both of which were non-productive. A second well on Banks is currently drilling.

Drilling the Elf Jameson Bay C31 well on Prince Patrick Island.



East Coast Offshore

The Company's holdings in this area were substantially increased in 1971 by the addition of a 100% interest in 2,184,669 acres on the east side of the Grand Banks. A seismic program was completed on this acreage late in the year. Elf drilled and abandoned its initial exploratory test on its block of acreage south of Newfoundland.



North Sea

The Company participated in the drilling of the Hamilton 30/2-1 well which was completed in June, 1971 as a gas/condensate discovery. Subsequently, the Company joined in a British and Canadian consortium which made applications for new licences in areas concentrated mainly in the northern sector of the British North Sea waters.

CANADIAN ARCTIC

- CIGOL 100%
- CIGOL 100% subject to 3% O.R.R. to Reserve Oil & Gas Ltd.
- CIGOL 100% subject to Sun Oil Company option to earn 50%
- CIGOL 75%
- CIGOL 25%
- CIGOL 15%
- Prairie Oil Royalties } 14% each { Panarctic may earn 77.5% reducing
B.C. Oil Lands } the above interest each to 3.15%
- Prairie Oil Royalties } 14% of 6.4687% each { Farmout to
B.C. Oil Lands } Panarctic
- Trans-Prairie Pipelines 31¼%
- Prairie Oil Royalties } 6.1765% each
B.C. Oil Lands }
- CIGOL 4%
- Elf Oil Exploration & Production Canada Ltd.



ELLESMERE ISLAND

PANARCTIC ROMULUS

AXEL HEIBERG
ISLAND

ELLEF RINGNES
ISLAND

PANARCTIC
KRISTOFFER

PANARCTIC
KING CHRISTIAN

PRINCE PATRICK
ISLAND

PANARCTIC
DRAKE POINT

DEVON ISLAND

MELVILLE ISLAND

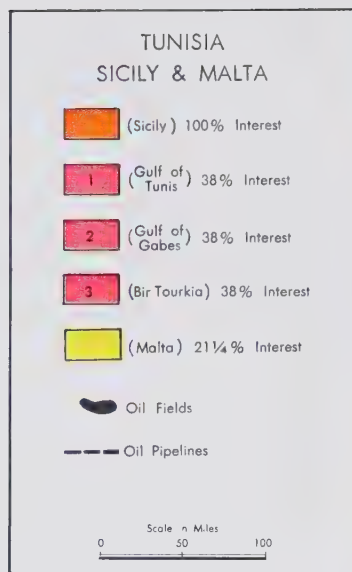
BATHURST
ISLAND

BANKS
ISLAND

PRINCE OF WALES
ISLAND

VICTORIA ISLAND





Adriatic & Offshore Sicily

During 1971, seismic surveys were carried out on the Company's acreage in the Adriatic Sea, and in January, 1972, the Company was awarded a new exploration licence off the coast of Sicily, comprising approximately 72,400 acres.

Tunisia

In April, 1971 the Company and its partners were granted three exploration permits covering a total area of approximately 3,500,000 acres contained in three blocks, on and offshore Tunisia. The Company's interest in these permits is 38%. Before the end of the year, seismic programs had been completed on the two offshore permits, and a land seismic survey is planned for the summer of 1972. Four important oil discoveries were made by other companies in the region. Of these, three were made in 1971, one offshore and one onshore Tunisia, and one in Libyan waters close to the Tunisian border.

Malta

After the completion of seismic studies on a 426,000 acre concession, a drilling location was selected and an offshore drilling rig spudded the exploratory well, Home et al Malta #1, on January 5, 1972. The Company has a 21¼% interest in this concession and the well.



London Office

In October, the Company opened an office in London, England, in order to facilitate the management of its European and African enterprises and the negotiations for further interests in those areas.

Coal Exploration

The Company continued evaluation of its coal properties in the Savanna Creek area of the Alberta foothills. The program included surface mapping and trenching and diamond drilling. Additional drilling was also done on coal properties held by the Company on the Alberta plains.

Mineral Exploration

A vigorous drilling program was undertaken by another company on the properties on the Island of Anglesey in North Wales, where the Company through Parys Mountain Mines Limited, a 69% owned subsidiary, holds a mineral lease. The Company participated in several mineral exploration programs in Canada, primarily in British Columbia and the Yukon Territory.

NEW SUBSIDIARIES

Laurence Oil Co. Ltd.

In January, 1971 the Company exchanged 185,000 common shares from treasury for all of the outstanding shares of Laurence Oil Co. Ltd. Subsequently, the name of that company was changed to CIGOL Laurentian Ltd. Its principal operations are in the Swallow well field of southern Alberta. On December 31, 1971 Laurentian had reserves of 1,694,000 barrels of oil.

Western Propane, Inc.

Prior to 1971, the Company, through its wholly owned subsidiary Cigas Products Ltd., owned 50% of the issued shares of Western Propane, Inc., which distributes liquefied gas in the States of Washington and Oregon. In January, 1971 the remaining 50% of the issued shares were acquired by the exchange of 100,000 common shares of CIGOL from treasury.

Frisco Petroleums Ltd.

In December, 1971 the Company executed an agreement with Canadian Bonanza Petroleums Ltd. to exchange 755,000 common shares from treasury for all of the outstanding shares of Frisco Petroleums Ltd. Frisco owns various working interests in producing oil and gas wells in the Countess-Lathom, Leckie, Lake Newell, Bassano, and other fields in Alberta. On December 31, 1971 Frisco had reserves of 10,126,000 barrels of oil and 21,000 MMCF of gas.

FUTURE

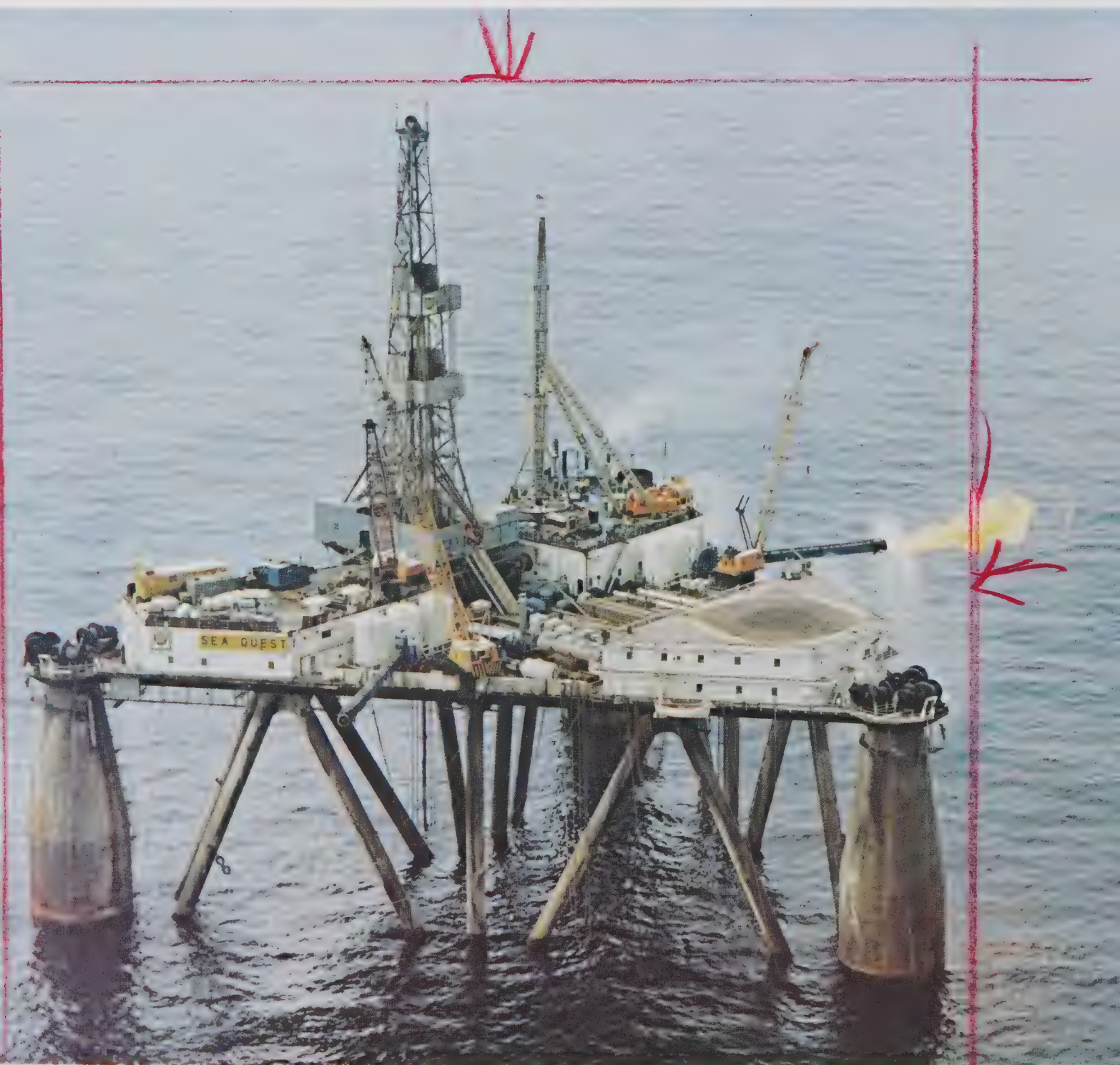
Over the years the primary policy of the Company was to acquire, after careful appraisal, revenue producing properties. Several years ago after a substantial cash income had been established, the Company embarked upon a program to greatly expand its exploratory efforts. Additional exploration personnel were employed and during the last three years net acreage was increased by over eight million acres, including holdings not only in the unexplored areas of Canada but in a number of foreign countries. Two years ago the Company entered into an arrangement to acquire 10% of the common stock in Elf Oil Exploration and Production Canada Ltd. which, at an early stage, had filed on large blocks of highly prospective acreage in most of the frontier areas of Canada. Present plans are to continue to expand exposure and exploration activities not only in the present areas of operation but also in new areas. The management of the Company feels quite confident that in the future one or more of these endeavours will result in an important addition to the total value of assets and increase the rate of growth of income.

On Behalf of the Board



President.

Calgary, Alberta.
March 28, 1972.



The "Sea Quest" drilling the Hamilton 30/2-1 well in the British sector of the North Sea.

~~HAZ~~ GAS 11-11

AUDITORS' REPORT

To the Shareholders

Canadian Industrial Gas & Oil Ltd.

We have examined the consolidated balance sheet of Canadian Industrial Gas & Oil Ltd. and subsidiary companies as at December 31, 1971 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
February 11, 1972.

RIDDELL, STEAD & CO.
Chartered Accountants.

CONSOLIDATED BALANCE SHEET

as at December 31, 1971

Assets

	<u>1971</u>	<u>1970</u> (Note 1)
CURRENT ASSETS		
Cash and short-term deposits	\$ 4,021,347	\$ 9,587,132
Accounts and notes receivable	7,290,445	6,197,235
Inventories of merchandise and supplies at lower of cost or replacement cost	2,094,411	1,424,390
Prepaid expenses and deposits	570,915	467,387
	<u>13,977,118</u>	<u>17,676,144</u>
INVESTMENTS		
Fifty percent owned companies		
Shares at cost plus equity in undistributed earnings	63,619	907,084
Advances	44,499	309,409
Other companies, at cost		
Shares (Note 2)	12,802,965	7,949,007
Note receivable from affiliated company	500,000	500,000
	<u>13,411,083</u>	<u>9,665,500</u>
PROPERTY, PLANT AND EQUIPMENT, at cost (Notes 1 and 3)	161,040,370	141,869,186
Accumulated depletion and depreciation	60,264,422	53,386,431
	<u>100,775,948</u>	<u>88,482,755</u>
OTHER ASSETS	<u>232,931</u>	<u>283,794</u>

Signed on behalf of the Board:

E. A. Galvin, Director

C. S. Clark, Director

<u>\$128,397,080</u>	<u>\$116,108,193</u>
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Canadian Industrial Gas & Oil Ltd.
AND SUBSIDIARY COMPANIES

Liabilities

	1971	1970 (Note 1)
CURRENT LIABILITIES		
Accounts and notes payable and accrued charges . . .	\$ 7,570,893	\$ 5,076,819
Preferred dividend payable	46,177	62,910
Income taxes payable by subsidiaries	74,650	122,000
Current maturities on long-term debt	4,286,634	4,256,796
	<u>11,978,354</u>	<u>9,518,525</u>
LONG-TERM DEBT (Note 4)	<u>26,506,910</u>	<u>26,177,725</u>
MINORITY INTEREST IN SUBSIDIARY COMPANIES	<u>2,432,550</u>	<u>2,332,864</u>
CONTRIBUTION IN AID OF CONSTRUCTION	<u>115,182</u>	<u>112,362</u>
DEFERRED INCOME TAXES	<u>1,009,620</u>	<u>786,794</u>

Shareholders' Equity

CAPITAL STOCK (Note 5)		
Authorized		
500,000 5½% cumulative redeemable convertible voting preferred shares, par value \$10 each		
50,000,000 common shares without par value		
Issued		
167,616 preferred shares	1,676,160	2,280,740
21,112,027 common shares	27,183,450	26,129,787
	<u>28,859,610</u>	<u>28,410,527</u>
PAID-IN SURPLUS (no change during year)	956,237	956,237
RETAINED EARNINGS (Note 6)	56,538,617	47,813,159
	<u>86,354,464</u>	<u>77,179,923</u>
	<u>\$128,397,080</u>	<u>\$116,108,193</u>

CONSOLIDATED STATEMENT OF EARNINGS

for the year ended December 31, 1971

	1971	1970 (Note 1)
SALES, SERVICE AND OTHER OPERATING REVENUE	\$42,086,416	\$33,900,500
COSTS AND EXPENSES		
Gas and other merchandise purchased	11,077,398	7,273,092
Selling, operating and administrative expenses	11,388,557	8,983,548
Interest	2,033,705	2,011,137
Depletion	3,985,689	3,296,826
Depreciation	3,055,653	2,740,711
Minority interest	265,315	284,319
	31,806,317	24,589,633
EARNINGS BEFORE INCOME TAXES	10,280,099	9,310,867
Income taxes of subsidiaries	390,983	398,864
NET EARNINGS (Note 7)	\$ 9,889,116	\$ 8,912,003
NET EARNINGS PER COMMON SHARE (basic and fully diluted) — based on weighted average number of common shares outstanding	47¢	42¢

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1971

	1971	1970 (Note 1)
BALANCE AT BEGINNING OF YEAR, before adjustments	\$47,879,197	\$39,366,465
Adjustments resulting from subsidiaries pooled in 1971 —		
Equity in net deficit at January 1	(287,583)	(335,227)
Company's 1970 depletion expense	221,545	—
BALANCE AT BEGINNING OF YEAR, as adjusted (Note 1)	47,813,159	39,031,238
Net earnings	9,889,116	8,912,003
	57,702,275	47,943,241
Dividends - preferred shares of the Company	105,450	130,082
- common shares of a subsidiary	1,058,208	—
	1,163,658	130,082
BALANCE AT END OF YEAR	\$56,538,617	\$47,813,159

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended December 31, 1971

	<u>1971</u>	<u>1970</u> (Note 1)
FUNDS DERIVED FROM		
Operations		
Net earnings	\$ 9,889,116	\$ 8,912,003
Non-cash items	7,589,779	6,413,162
	<u>17,478,895</u>	<u>15,325,165</u>
Sale of fixed assets	643,282	684,795
Issue of common shares for cash	243,333	113,300
Long-term debt increase - net	329,185	8,763,766
Sale of share investment in subsidiary	—	222,510
Other	109,363	134,440
	<u>18,804,058</u>	<u>25,243,976</u>
Issue of common shares for acquisition of balance of subsidiary's shares	950,000	—
	<u>19,754,058</u>	<u>25,243,976</u>
FUNDS APPLIED TO		
Oil and gas properties	10,588,761	6,849,418
Plant and equipment, including that of subsidiaries purchased during year, net of previous investment therein	8,449,173	3,794,792
Dividends - preferred shares of Company	105,450	130,082
- common shares of subsidiary	772,785	—
Distribution of capital by subsidiary	744,250	—
Investment in other companies	5,086,865	4,979,503
Reduction of minority interest in subsidiary company	165,629	17,701
	<u>25,912,913</u>	<u>15,771,496</u>
DECREASE (INCREASE) IN WORKING CAPITAL	<u>\$ 6,158,855</u>	<u>\$ (9,472,480)</u>

NOTES TO 1971 CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — ACCOUNTING POLICIES

The consolidated financial statements include the accounts of Canadian Industrial Gas & Oil Ltd. and all of its subsidiaries. All subsidiaries are wholly-owned at December 31, 1971 with the exception of Prairie Oil Royalties Company, Ltd., Parys Mountain Mines Limited and Trans-Prairie Pipelines, Ltd., in which the Company has a 74%, 69% and 97% interest respectively. The excess of the cost of shares of purchased subsidiaries over the underlying net book value of their assets at dates of acquisition has been included in property, plant and equipment and is being systematically amortized on the same basis as the related assets.

The companies follow the practice of capitalizing both productive and non-productive costs related to the exploration for and the development of oil and gas reserves, and of depleting such costs on a composite unit of production method based on total estimated recoverable reserves. Costs related to exploration for and development of mining properties are capitalized and charged to earnings if the project or property is abandoned.

Depreciation of pipelines, plants and equipment is being provided at rates which will amortize original costs over the estimated useful lives of the respective assets.

In January and November of 1971, the Company acquired the previously non-owned 50% of the outstanding shares of Western Propane, Inc. for 100,000 common shares of the Company and of Mid-West Propane Ltd. for \$45,000 cash. Both are liquefied petroleum gas distributing companies. These acquisitions were accounted for as purchases and their earnings have been included in the consolidated statement of earnings from the effective date of such acquisitions.

In January and December of 1971 the Company issued 185,000 and agreed to issue 755,000 common shares in exchange for all of the issued and outstanding shares of CIGOL Laurentian Ltd. (formerly Laurence Oil Co. Ltd.) and Frisco Petroleums Ltd. respectively, two petroleum exploration and production companies. These business combinations were accounted for on a pooling of interests basis. Accordingly, their earnings are included for the full year in the 1971 accounts of the Company and the comparative accounts covering the year ended December 31, 1970 have been re-stated on the same basis.

Required details prescribed by the Regulations under the Ontario Securities Act are shown hereunder:

	<u>Western Propane, Inc.</u>	<u>CIGOL Laurentian Ltd.</u>	<u>Frisco Petroleums Ltd.</u>
Book value of portion of net assets brought in by the corporations	\$479,500	\$1,296,841	\$ (558,855)
Excess of consideration given over net book value thereof	<u>470,500</u>	<u>876,909</u>	<u>7,259,480</u>
Market value of common shares at the effective dates of the transaction	<u>\$950,000</u>	<u>\$2,173,750</u>	<u>\$6,700,625</u>

The 1,040,000 common shares of the Company issued as stated above represents 4.9% of Canadian Industrial Gas & Oil Ltd.'s total common shares outstanding after giving effect to the issue of such shares.

The following sets forth the net earnings of the Company for the two years ended December 31, 1970 as previously reported compared to re-stated net earnings including the pooled corporations:

	<u>1970</u>	<u>1969</u>
Net Earnings		
Previously reported	\$8,642,814	\$8,238,191
Re-stated on pooling basis	8,912,003	8,187,675

Note 2 INVESTMENT — SHARES IN OTHER COMPANIES

Investment in shares of other companies at December 31, 1971 includes 1,020,000 common shares and 1,860 preferred shares of Elf Oil Exploration and Production Canada Ltd. (Elf). On November 22, 1969, the Company entered into an agreement to subscribe for a share interest in Elf. The consideration for the Elf shares was the commitment by the Company to incur over a five-year period drilling and exploration expenses on mineral rights in Canada owned or controlled by Elf in an aggregate amount of \$23.5 million approximating \$4.7 million per annum. The agreement contains provisions for the acceleration of the programmed expenditures and, under certain circumstances, for the incurring of additional expenditures. A total of \$9.5 million has been

NOTES (Continued)

incurred on drilling and exploration expenses and is included as the cost of Elf shares at December 31, 1971. These expenditures are allowable to the Company as deductions for income tax purposes.

Also included under this caption at December 31, 1971 are 333,531 shares of British Columbia Oil Lands Ltd. (approximately 35% of that company's outstanding capital stock) at a cost of \$2 million which approximates market value. Because of the number of shares of British Columbia Oil Lands Ltd. involved, the market value is not necessarily indicative of the amount that would be realized on sale.

Note 3 — PROPERTY, PLANT AND EQUIPMENT

		1971		1970
		Accumulated Depreciation and Depletion		(Note 1)
	Cost		Net	Net
Oil and gas properties	\$92,800,130	\$28,793,256	\$ 64,006,874	\$57,733,818
Oil and gas production equipment	14,696,469	8,706,854	5,989,615	5,220,740
Pipelines and processing plants	27,422,883	17,651,836	9,771,047	9,997,462
Propane marketing equipment	17,733,082	4,199,188	13,533,894	9,794,098
Gas utility facilities	8,387,806	913,288	7,474,518	5,736,637
	<u>\$161,040,370</u>	<u>\$60,264,422</u>	<u>\$100,775,948</u>	<u>\$88,482,755</u>

Note 4 — LONG-TERM DEBT

	1971	1970
		(Note 1)
Canadian Industrial Gas & Oil Ltd. and wholly-owned subsidiaries		
Bank loans secured primarily by producing properties of which \$2,652,000 is repayable in 1972 plus interest at prime bank rates for such loans	\$15,029,000	\$12,295,500
5 $\frac{7}{8}$ % First Mortgage Sinking Fund Bonds, due February 1, 1983 (\$8,725,000 (U.S.)) subject to semi-annual sinking fund payments of \$325,000 (U.S.)	9,395,254	10,095,188
Advance for drilling costs — interest-free, repayable October 1, 1982	1,500,000	1,500,000
Other	939,290	626,833
Trans-Prairie Pipelines, Ltd. and subsidiary		
Bank loans, repayable in monthly instalments of \$32,000 plus interest at prime bank rates for such loans	1,248,000	2,817,000
First Mortgage Sinking Fund Bonds:		
6% Series "A" due June 1, 1982, subject to annual sinking fund payments of \$57,000	1,622,500	1,708,500
6 $\frac{1}{2}$ % Series "C" due February 1, 1976, subject to annual sinking fund payments of \$250,000	760,000	1,012,000
Sinking Fund Debentures:		
6 $\frac{1}{4}$ % Series "A" due February 1, 1976, subject to annual sinking fund payments of \$80,000	299,500	379,500
	<u>30,793,544</u>	<u>30,434,521</u>
Current maturities included in current liabilities	4,286,634	4,256,796
	<u>\$26,506,910</u>	<u>\$26,177,725</u>

Trans-Prairie Pipelines, Ltd. has authorized the creation and issue of \$3,500,000 7 $\frac{1}{2}$ % Series "D" First Mortgage Sinking Fund Bonds due March 1, 1983, all of which have been lodged with the bank as collateral for existing bank loans.

Long-term debt maturities and sinking fund requirements for each of the four years subsequent to 1972 are as follows: 1973 - \$5.0 million, 1974 - \$5.4 million, 1975 - \$4.3 million, 1976 - \$1.9 million.

Note 5 — CAPITAL STOCK

Changes in the Company's share capital during the year ended December 31, 1971 were as follows:

	Preferred Shares		Common Shares	
	Number of Shares	Book Value	Number of Shares	Book Value
Balance, January 1, 1971	228,074	\$2,280,740	19,853,829	\$23,546,710
Issued for cash on exercise of options	—	—	73,098	243,333
Issued on conversion of preferred shares into common shares	(60,458)	(604,580)	145,100	604,580
Issued and to be issued in exchange for shares of subsidiaries (Note 1)				
Western Propane, Inc.	—	—	100,000	950,000
CIGOL Laurentian Ltd. (formerly Laurence Oil Co. Ltd.)	—	—	185,000	1,805,577
Frisco Petroleums Ltd. issued in January, 1972	—	—	755,000	33,250
Balance, December 31, 1971	<u>167,616</u>	<u>\$1,676,160</u>	<u>21,112,027</u>	<u>\$27,183,450</u>

Unissued common shares of the Company are reserved at December 31, 1971 as follows:

- 402,278 for conversion of preferred shares into common shares until July 1, 1973 at the rate of twelve common shares for five preferred shares, after which date the preferred shares are redeemable at par. Of the authorized preferred shares, 291,149 shares had been issued and surrendered for conversion to December 31, 1971 and are not available for reissue.
- 464,152 for incentive stock option plans for Company officers and key employees, of which options to purchase 139,250 shares were outstanding at December 31, 1971 exercisable at \$3.33 $\frac{1}{3}$ per share from time to time to October 26, 1973 and market growth options to purchase 180,500 shares from time to time to December 8, 1977 at prices ranging from \$9.00 to \$11.00 per share.

866,430

Note 6 — DIVIDEND RESTRICTIONS

The terms of the Deed of Trust and Mortgage securing the Company's First Mortgage Sinking Fund Bonds restrict the amount of retained earnings available for dividends as at December 31, 1971 to approximately \$43.3 million.

Note 7 — INCOME TAXES

For income tax purposes the companies have claimed drilling, exploration and lease acquisition costs and capital cost allowances in amounts which, in the aggregate, exceed the related depletion and depreciation provisions reflected in the accounts. As a result income taxes for the year are payable only on the earnings of some of the Company's subsidiaries, while no income taxes are payable in respect of the earnings reported for the other companies. As at December 31, 1971 expenditures remain to be carried forward (subject to assessment by taxation authorities) and applied against future taxable income as follows:

Drilling, exploration and lease acquisition costs	\$ 4.6 million
Undepreciated capital cost	\$27.2 million

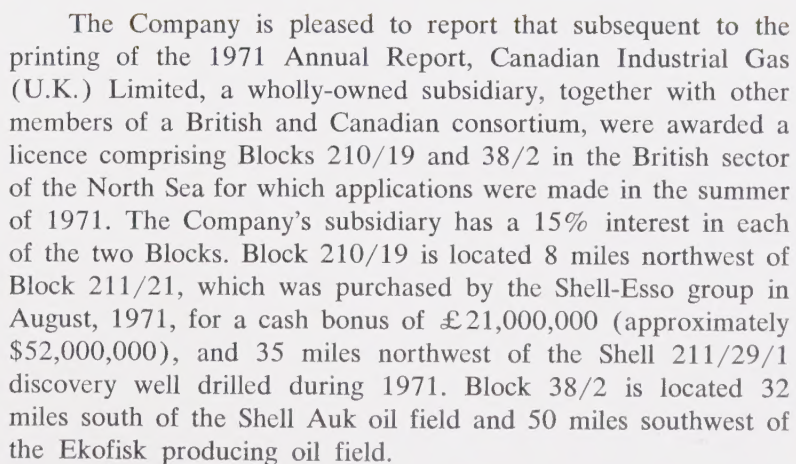
It is the policy of the companies to provide for deferred income taxes at such time as taxes otherwise payable are deferred as a result of claiming capital cost allowances in excess of book depreciation recorded. This policy permits the Company to claim capital cost allowance in excess of book depreciation without providing for deferred tax in its accounts provided it has other tax deductions available to eliminate taxable income. However, management does not believe that it is appropriate to provide for income taxes deferred as a result of claiming for income tax purposes drilling, exploration and lease acquisition costs in excess of depletion provided in the accounts; while the view of management conforms with general practice in the oil and gas industry, it differs from the tax allocation basis of accounting recommended by the Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants under which the income tax provision is based on the earnings reported in the accounts.

If the tax allocation basis had been followed for all timing differences between taxable income and reported income, deferred income tax provisions would have been \$4.3 million and \$3.9 million for 1971 and 1970 respectively. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately \$22.2 million at December 31, 1971.

Note 8 — REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration totalling \$360,640 was paid to the directors and senior officers of the Company by the Company and its subsidiaries in 1971.





March 28, 1972.

CONSOLIDATED STATEMENT OF EARNINGS

Six Months Ended June 30, 1971 and 1970

(Unaudited)

	1971	1970
SALES, SERVICE AND OTHER OPERATING REVENUE	\$20,178,915	\$16,613,857
COSTS AND EXPENSES		
Gas and other merchandise purchased	5,126,350	3,508,756
Selling, operating and administrative expenses	5,642,363	4,316,671
Interest	963,163	936,299
Depletion	2,152,432	1,761,019
Depreciation	1,527,474	1,402,352
Minority interest	145,533	145,413
	15,557,315	12,070,510
EARNINGS BEFORE INCOME TAXES	4,621,600	4,543,347
Income taxes	222,214	176,306
EARNINGS BEFORE EXTRAORDINARY ITEM	4,399,386	4,367,041
Gain on disposal of assets	—	53,048
NET EARNINGS	\$ 4,399,386	\$ 4,420,089
Cash earnings per common share *	40¢	37¢
Net earnings per common share *	22¢	22¢

* Based on weighted average number of common shares outstanding.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Six Months Ended June 30, 1971 and 1970

(Unaudited)

	1971	1970
FUNDS DERIVED FROM		
Operations		
Net earnings	\$ 4,399,386	\$ 4,420,089
Non-cash items	3,924,691	3,230,410
	8,324,077	7,650,499
Sale of assets	354,684	417,247
Issuance of common shares	135,333	46,800
Working capital of subsidiaries acquired	426,401	—
Sale of share investment in subsidiary	—	222,510
	9,240,495	8,337,056
FUNDS APPLIED TO		
Property and intangible costs	5,549,526	2,639,858
Plant and equipment	1,661,065	1,105,962
Investment in affiliated and other companies	1,892,414	3,883,118
Long-term debt decrease (increase) — net	2,157,234	(5,701,864)
Dividends — preferred shares	59,273	67,172
Other sources	42,993	10,527
	11,362,505	2,004,773
DECREASE (INCREASE) IN WORKING CAPITAL	\$ 2,122,010	\$ (6,332,283)

CANADIAN
INDUSTRIAL
GAS & OIL LTD.

INTERIM REPORT

JUNE 30, 1971

To The Shareholders

EXPLORATION

In the first half of 1971 the Company and its subsidiaries participated in the drilling of 55 wells resulting in 14 oil wells (4.3 net) and 8 gas wells (1.4 net).

Western Canada

Six wells have now been drilled in the vicinity of the Golden, Alberta, Devonian oil discovery of which four are oil wells. Trans-Prairie Pipelines, Ltd. (95% owned) has an interest varying from 33 1/3 % to 66 2/3 % in these wells. More development drilling is planned in the coming months.

In March of 1971 the Company drilled a discovery in the Beaton-Milligan area of northeastern British Columbia. This was in addition to a discovery previously made by Prairie Oil Royalties Company, Ltd. (74% owned). Follow-up drilling is now in progress by the two companies. The Company, along with its subsidiary, Prairie Oil Royalties, has extensive holdings in the immediate area.

North Sea

The Hamilton 30/2-1 well in which the Company holds a 15% working interest has been completed as a gas and condensate discovery. Further evaluation work is necessary before full details of the discovery can be released. The Company is participating in further applications for licenses in other areas in the North Sea as a member of a consortium, which includes Home Oil Company Limited, Charter Consolidated Limited and a group of British banks and insurance companies.

East Coast

The Company has recently acquired 2,184,669 acres on the east side of the Grand Banks, offshore Newfoundland, where a seismic program will soon be implemented.

King Christian Island

The Panarctic King Christian N-06 well located two miles southeast of the King Christian D-18 gas discovery was spudded in May of this year. The N-06 well encountered a gas section in the Heiberg Sand similar to the D-18 well. Drilling is currently proceeding close to a projected depth of 10,000 feet. Prairie Oil Royalties will have a 4.3% interest in the well.

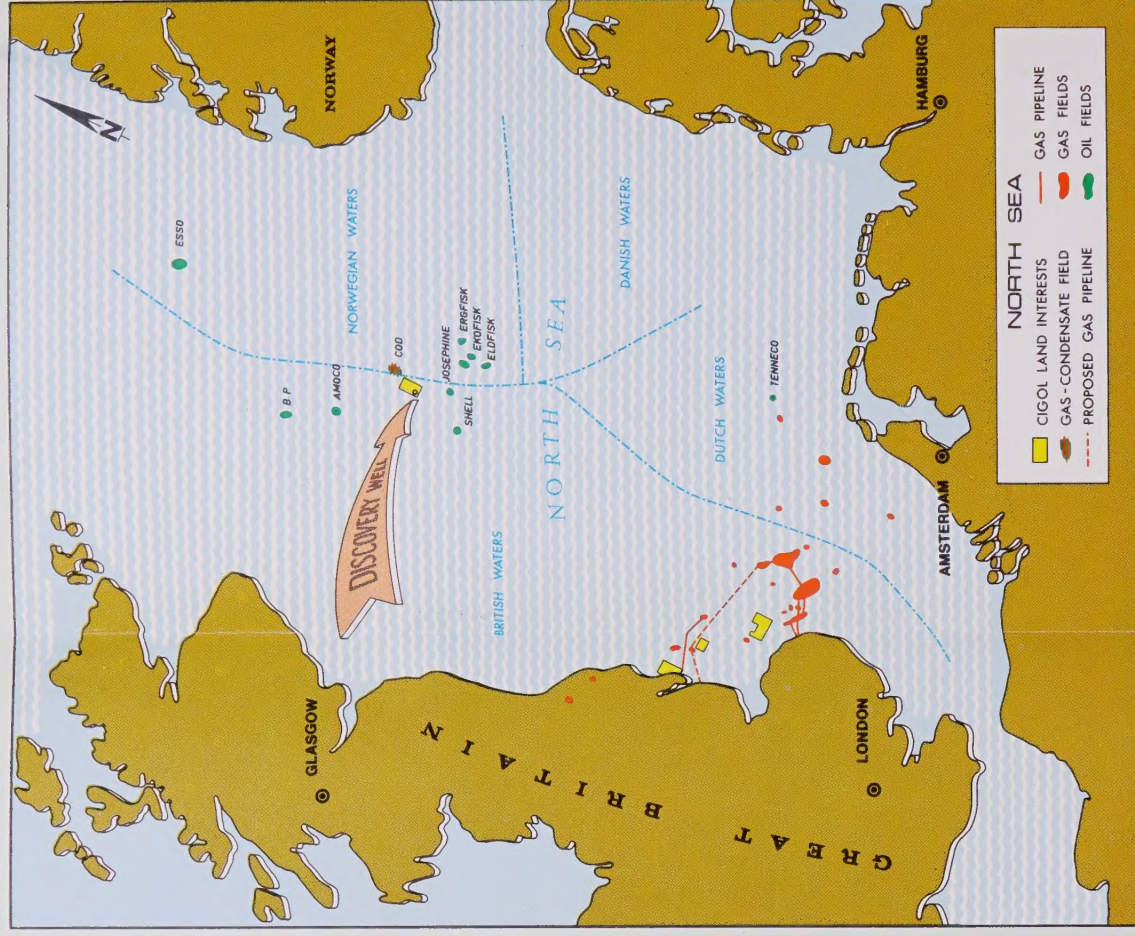
Elf Oil

Elf Oil Exploration and Production Canada Ltd. (in which the Company has a 10% interest), in conjunction with two other companies, will participate in the drilling of a test well, Elf et al Storkerson Bay B-14, about halfway up the west coast of Banks Island in the Canadian Arctic. The well will be drilled to 7,000 feet and is expected to be spudded in September.

Elf Hermine E-94, to be located approximately 460 miles east of Halifax, Nova Scotia, will be spudded this autumn. The well will be located on an approximate 2,000,000 acre block held by Elf Oil.

FINANCIAL

Consolidated gross revenue for the first six months of 1971 was \$20,179,000 compared to \$16,614,000 for the same period of 1970. Revenue for 1971 included \$1,791,000 of Western Propane, Inc., as



that subsidiary is now 100% owned, whereas in 1970 only 50% of that company's net profit was included. Cash earnings for the first half of 1971 were \$8,324,000 compared to \$7,650,000 or 40¢ per share and 37¢ per share respectively. The increase in cash earnings, however, was offset by additional non-cash charges including write-offs of certain mining rights, and as a result net earnings were 22¢ per share or the same as for the first half of 1970.

On Behalf of the Board of Directors

Calgary, Alberta.

August 20, 1971.

Ed Salvin

President.